

Agricultural Economy & Policy Report - Ukraine

February 2009

Political Situation

Viktor Yushchenko became President in late 2004 on a platform of anti corruption and pro market reform, including a stated objective of joining the WTO and NATO. He has faced three new governments since that time, the inability to move many initiatives through the parliament (Rada), and organized political opposition from the Prime Minister's office.

The government continues to face serious challenges and its stability remains in question, both within the coalition and moves by the opposition. Other goals of the new coalition government to strengthen the financial sector, further reform the tax system, enforce anti-monopoly policies and improve the pension system have not yet materialized. Economic growth in 2007 was 7.3 percent, but many societal problems have not been addressed.

Economic Situation

Ukraine is an emerging economy with per capita gross domestic product of \$2,275 in 2007. It has successfully privatized the food processing industry, consumer services, and the retail sector. The greatest challenge remains privatizing large metallurgy, energy, and telecommunication enterprises, and creating a market for agricultural land. The moratorium on the sales of agricultural land was once again extended in January 2008.

Real GDP growth rates ranged between 5.9 to 12.1 percent from 2000 to 2007. In 2007, the inflation rate reached an alarming 16.6 percent due to increases in social spending and other macroeconomic factors. The depreciating dollar also fueled the inflation rate because the local currency was "softly" pegged to the dollar.

A significant portion of Foreign Direct Investment (FDI) is Ukrainian capital that fled the country in earlier years and is now being reinvested in Ukraine. The European Union has captured the largest share of FDI. The U.S. share has gradually decreased over the same period, and accounted for 4 percent in 2008.

Domestic Agricultural Situation

Ukraine's agricultural sector employs 23.1 percent of the work force, but comprises only 6.5 percent of GDP. Private household plots account for 60.3 percent of agricultural output. The Government has pushed for economic reforms while continuing to support protectionist policies. Agricultural land has still not been privatized, leading to problems of land ownership and the availability of credit. Production agriculture is still low in the beef, sugar beet, and dairy sectors.

Other agricultural sectors have developed well, especially poultry, food processing, oilseed production and processing, and grains. Investment has flowed into these industries leading to rapid expansion.

In May, 2007, the Ukrainian parliament voted on and adopted the "Law of the State System of Biosafety in Creating, Testing, Transporting and Using Genetically-Modified Organisms". The law was signed by the President in June, 2007. Ukraine committed to establishing a functioning approval and regulatory framework for biotech products prior to WTO membership. Currently, Ukraine has no functioning biotech approval and regulatory system.

Agricultural Trade Situation

Ukraine ran an agricultural trade deficit from 2005 through 2007, with the total volume of imports and exports increasing significantly. The total share of U.S. imports accounts for only 2-3 percent of total imports. Russia, Turkmenistan, Poland, Germany and China are the major exporters to Ukraine.

Ukraine acceded to the World Trade Organization (WTO) in May 2008. Ukraine made significant progress on necessary legislative and systemic reforms required by the WTO before acceding.

Regulatory System

Ukraine's food safety system is implemented by various state agencies that often have overlapping functions. The following agencies are involved in assuring the safety of domestically produced and imported food products, and animal and plant health issues:

- State Epidemiological Service (SES) of the Ministry of Health Care of Ukraine (MHCU) establishes food safety standards and is responsible for ALL aspects of food safety;
- State Department of Veterinary Medicine (SDVM) of the Ministry of Agricultural Policy of Ukraine (MAPU) is responsible for animal health, safety and wholesomeness of meat, seafood and other products of animal origin;
- Main State Phytosanitary Inspection Service (MSPIS) of the MAPU is responsible for plant health issues;
- State Committee of Ukraine on Technical Regulations and Consumer Policy (SCUTRCP) is responsible for compliance of food products with existing quality and safety standards;
- State Ecological Inspection Service (SEIS) of the Ministry of Environment and Natural Resources of Ukraine (MENRU) is responsible for radiological and environmental control.

The main document which regulates food safety indicators in Ukraine is *the Medical and Biological Requirements and Sanitary Norms of Quality of Raw Food Materials and Food Products* that was approved by the Ministry of Health Care of the USSR on August 1, 1989. This document divides all food products into nine major categories: meat, meat products, poultry and eggs; milk and dairy products; fish, fish products and other seafood; bread, pasta and cereals; sugar and confectionary, vegetables, melons and gourds, fruits, berries and processed products of thereof; fat products; drinks and fermented products and other products. The document establishes a set of nutritional and safety standards for each product category. Ukrainian health authorities have declared their intention to revisit the norms.

Imported food products must meet the same requirements as domestically produced foods. While enforcement of food safety norms has been generally effective, outdated nutritional norms have not been rigorously enforced.

FAS Cooperators

Several FAS cooperators cover Ukraine from regional offices. These include the USA Poultry and Egg Export Council, the U.S. Meat Export Federation, American Soybean Association and U.S. Wheat Associates.